



## CITY OF PIKEVILLE

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Pikeville, Kentucky 41501  
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**Frank Justice, II**  
*Mayor*

**Donovan Blackburn**  
*City Manager*

June 16, 2009

Public Service Commission of Kentucky  
Attn: Jeff Derouen  
Executive Director  
P.O. Box 615  
Frankfort, KY 40602-0615.

RECEIVED

JUN 17 2009

PUBLIC SERVICE  
COMMISSION

Ref: Wholesale Water Purchase Contract

Dear Mr. Derouen

The City of Pikeville currently operates both a water and waste water system. Over the past several years the City has had to take over a half million dollars out of the general fund to fund our utilities. After several pleas from our auditor, we moved forward to correct the issue. In November of 2008 the City of Pikeville released a Rate Analysis that was performed by Bob Myers with Utility Management Group and Carryn Lee of Lee Utility Consulting.

Since the City owns and operates the utilities, adjustments were made on the commercial and residential side. The wholesale adjustments required a different process. I spoke with Jerry Wuetcher prior to implementing the wholesale rate with the two utilities we currently do business with, Mountain Water and Southern Water. Currently over 60% of our total water sales comes from our wholesale customers. The Rate Analysis, as shown on page 8 of the study, had us lowering Southern Water's and Mountain Water's Cowpen Rate, but raising Mountain Water wholesale rate from \$1.44 to \$1.78. We have taken the action to lower the Southern Water rates, but needed to follow the process to increase Mountain Water rates. Due to an inter-local agreement, we were unable to increase rates until January of 2009. The Mountain Water Board did know for the past couple years that an increase was due and needed.

Over the past several months we have met with the Mountain Water Board and have explained our study, position and need to increase their rates. After a lot of hard work and a willingness to work together, a final compromise has been made. I am including a copy of a Wholesale Purchase Agreement between the City of Pikeville and Mountain Water. Both the Mountain Water Board and Pikeville City Commission passed the Resolution/Agreement with a unanimous vote from all members of both boards. Both the Mayor of Pikeville and the Chairman of Mountain Water board has signed and executed the agreement.



The compromised agreement commits Mountain Water to purchase a minimum of 28 million gallons per month at the rate of \$1.68 per 1,000 gallons. Mountain Water is currently purchasing an estimated average of around 35 million gallons per month and more than likely will continue to do so. The City of Pikeville would then agree to sell Mountain Water, for any purchases made above the agreed 28 million (up to a cap of 45 million) at a rate of \$1.30 per 1,000 gallons. When you average the \$1.68 and \$1.30 based on 35 million in sales their rates would average out to \$1.60. The old rate of \$1.44, now at \$1.60 based on 35 million in monthly purchase, equates to only an 11.1% increase in rates.

As per the process we have sent a letter to Mountain Water confirming their rate increase date which will not start until July 1<sup>st</sup> 2009. They will receive their first bill with their new rate the first of August of 2009. Also to be in compliance I am sending two copies of the City of Pikeville & Mountain Water Wholesale Water Purchase Contract for your review. It is my understanding that you will keep a copy for your file and then date stamp a copy to send back to my attention for the city's file.

I am submitting two copies of the agreement along with only one exhibit attachment for your organization to execute and keep on file. I am also including a copy of the City of Pikeville Rate Analysis along with a letter from Carryn Lee concurring with the study. Lastly, I am also including a copy of a letter from a respected Certified Public Accountant, Don Wallen. The city asked Mr. Wallen to also review the study for its integrity.

Please send our original copy back to the following address:

**Donovan Blackburn  
City of Pikeville  
118 College Street  
Pikeville, Ky 41501**

Please contact me if you have any questions or concerns. Thanks for all your help on this matter.

Sincerely,



Donovan Blackburn  
City Manager